

Making Smart Choices

OUR DECISIONS SHAPE OUR LIVES. Made consciously or unconsciously, with good or bad consequences, they represent the fundamental tool we use in facing the opportunities, the challenges, and the uncertainties of life.

- Should I go to college? If so, where? To study what?
- What career should I pursue? What job should I take?
- Should I get married now, or wait? Should I have children? If so, when and how many?
- Where should I live? Should I trade up to a larger house? What can I contribute to my community?
- Which job candidate should I hire? What marketing strategy should I recommend for my company?
- Since I feel unfulfilled, should I change jobs? Go back to school? Move?
- How should I invest my savings? When should I retire? To do what? Where?

Such questions mark the progress of our lives and our careers, and the way we answer them determines, to a large extent, our

place in society and in the world. Our success in all the roles we play—student, worker, boss, citizen, spouse, parent, individual—turns on the decisions we make.

Making Decisions Is a Fundamental Life Skill

Some decisions will be fairly obvious—“no-brainers.” Your bank account is low, but you have a two-week vacation coming up and you want to get away to someplace warm to relax with your family. Will you accept your in-laws’ offer of free use of their Florida beachfront condo? Sure. You like your employer and feel ready to move forward in your career. Will you step in for your boss for three weeks while she attends a professional development course? Of course.

But the no-brainers are the exceptions. Most of the important decisions you’ll face in life are tough and complex, with no easy or obvious solutions. And they probably won’t affect you alone. They’ll affect your family, your friends, your coworkers, and many others known and unknown. Making good decisions is thus one of the most important determinants of how well you meet your responsibilities and achieve your personal and professional goals. In short, *the ability to make smart choices is a fundamental life skill*.

Most of us, however, dread making hard decisions. By definition, tough choices have high stakes and serious consequences; they involve numerous and complex considerations; and they expose us to the judgments of others. The need to make a difficult decision puts us at risk of anxiety, confusion, doubt, error, regret, embarrassment, loss. No wonder we find it hard to settle down and choose. In living through a major decision, we suffer periods

of alternating self-doubt and overconfidence, of procrastination, of wheel-spinning and flip-flopping, of frustration, even of desperation. Our discomfort often leads us to make decisions too quickly, or too slowly, or too arbitrarily. We flip a coin, toss a dart, let someone else—or time—decide. The result: a mediocre choice, dependent on luck for success. It’s only afterwards that we realize we could have made a smarter choice. And by then it’s too late.

You *Can* Learn to Make Better Decisions

Why do we have such trouble? It’s simple: *we don’t know how to make decisions well*. Despite the importance of decision making to our lives, few of us ever receive any training in it. So we are left to learn from experience. But experience is a costly, inefficient teacher that teaches us bad habits along with good ones. Because decision situations vary so markedly, the experience of making one important decision often seems of little use when facing the next. How is deciding what job to take or what house to buy similar to deciding what school to send your children to, what medical treatment to pursue for a serious illness, or what balance to strike among cost, aesthetics, and function in planning a new office park?

The connection among the decisions you make lies not in *what* you’re deciding, but in *how* you decide. The only way to really raise your odds of making a good decision is to learn to use a good decision-making process—one that gets you to the best solution with a minimal loss of time, energy, money, and composure.

An effective decision-making process fulfills these six criteria:

- It focuses on what's important.
- It is logical and consistent.
- It acknowledges both subjective and objective factors and blends analytical with intuitive thinking.
- It requires only as much information and analysis as is necessary to resolve a particular dilemma.
- It encourages and guides the gathering of relevant information and informed opinion.
- It is straightforward, reliable, easy to use, and flexible.

A decision-making approach that addresses these criteria can be practiced on decisions major and minor—what movie to see, what car to buy, what vacation to take, what investment to make, what department head to hire, what medical treatment to pursue. And the more you use such an approach, the more efficient and effective it will become. As you grow more skilled and your confidence grows, making decisions will become second nature to you. In fact, you may find your friends and associates asking you for help and advice with their tough choices!

Use the PrOACT Approach to Make Smart Choices

This book provides you with a straightforward, proven approach for making decisions. It does not tell you *what* to decide, but it does show you *how*. Our approach meets the six criteria listed above. It helps you to see both the tangible and the intangible aspects of your decision situation more clearly and to translate all pertinent facts, feelings, opinions, beliefs, and advice into the

best possible choice. Highly flexible, it is applicable to business and professional decisions, to personal decisions, to family decisions—to any decision you need to make.

One thing the method won't do is make hard decisions easy. That's impossible. Hard decisions are hard because they're complex, and no one can make that complexity disappear. But you can manage complexity sensibly. How? Just like you'd climb a mountain: one step at a time.

Our approach takes one step at a time. We have found that even the most complex decision can be analyzed and resolved by considering a set of eight elements (see below). The first five—**Problem, Objectives, Alternatives, Consequences, and Trade-offs**—constitute the core of our approach and are applicable to virtually any decision. The acronym for these—PrOACT—serves as a reminder that the best approach to decision situations is a *proactive* one. The worst thing you can do is wait until a decision is forced on you—or made for you.

The Eight Elements of Smart Choices

<p><u>P</u>roblem</p> <p><u>O</u>bjectives</p> <p><u>A</u>lternatives</p> <p><u>C</u>onsequences</p> <p><u>T</u>radeoffs</p>
<p>Uncertainty</p> <p>Risk Tolerance</p> <p>Linked Decisions</p>

The three remaining elements—uncertainty, risk tolerance, and linked decisions—help clarify decisions in volatile or evolving environments. Some decisions won't involve these elements, but many of your most important decisions will.

The essence of the ProACT approach is to divide and conquer. To resolve a complex decision situation, you break it into these elements and think systematically about each one, focusing on those that are key to your particular situation. Then you reassemble your thoughts and analysis into the smart choice. So, although our method may not make a hard decision *easy*, it will certainly make it *easier*.

There Are Eight Keys to Effective Decision Making

Let's take a brief look at each of the elements of the ProACT approach to see how they work and how they fit together.

Work on the right decision problem. What must you decide? Is it which health club to join? Or whether to join one at all as opposed to walking more or buying some home gym equipment? Is it who to hire to manage your company's information systems department? Or whether you should even have an information systems department as opposed to outsourcing the function to an outside provider? The way you frame your decision at the outset can make all the difference. To choose well, you need to state your decision problems carefully, acknowledging their complexity and avoiding unwarranted assumptions and option-limiting prejudices.

Specify your objectives. Your decision should get you where you want to go. If you have to hire a new employee, do you want someone who's a disciplined team player or a creative free spirit? Do you want a fresh perspective or solid experience? A decision is a means to an end. Ask yourself what you most want to accomplish and which of your interests, values, concerns, fears, and aspirations are most relevant to achieving your goal. Thinking through your objectives will give direction to your decision making.

Create imaginative alternatives. Your alternatives represent the different courses of action you have to choose from. Should you take sides in a family argument or stand aside from the rising tide of accusation and acrimony? Or should you seek a resolution palatable to everyone concerned? If you didn't have different alternatives, you wouldn't be facing a decision. But have you considered *all* the alternatives or at least a wide range of creative and desirable ones? Remember: your decision can be no better than your best alternative.

Understand the consequences. How well do your alternatives satisfy your objectives? Alternatives beckon and beguile, but beyond them lie sometimes sobering, sometimes exciting consequences. Abandoning the corporate treadmill for your own sailboat chartering outfit in Aruba may sound enticing, but what would be the consequences for your spouse's career, your school-age children, your aging parents, your cancer-prone skin? Assessing frankly the consequences of each alternative will help you to identify those that best meet your objectives—*all* your objectives.

Grapple with your tradeoffs. Because objectives frequently conflict with one another, you'll need to strike a balance. Some of *this* must sometimes be sacrificed in favor of some of *that*. Your career is important to you, but so is your family. You may decide, therefore, to reduce your business travel or even to cut back on your hours at the office. You'll lose some career momentum and possibly some income, but you'll gain time with your spouse and your kids. In most complex decisions, there is no one perfect alternative. Different alternatives fulfill different constellations of objectives. Your task is to choose intelligently among the less-than-perfect possibilities. To do so, you need to set priorities by openly addressing the need for tradeoffs among competing objectives.

Clarify your uncertainties. What could happen in the future, and how likely is it that it will? To decide how much money to set aside for your daughter's college education fund, you must assess a number of uncertainties. Will she apply to an Ivy League university or a state college? Will she be accepted? Are her academic, artistic, or athletic skills likely to earn her a scholarship? Will she want to work while studying? Will she need a car? Uncertainty makes choosing far more difficult. But effective decision making demands that you confront uncertainty, judging the likelihood of different outcomes and assessing their possible impacts.

Think hard about your risk tolerance. When decisions involve uncertainties, the desired consequence may not be the one that actually results. A much-deliberated bone marrow transplant may or may not halt cancer. A low-risk investment in municipal

bonds could result in major financial losses. People vary in their tolerance of such risks and, depending on the stakes involved, in the risk they will accept from one decision to the next. A conscious awareness of your willingness to accept risk will make your decision-making process smoother and more effective. It will help you to choose an alternative with the right level of risk *for you*.

Consider linked decisions. What you decide today could influence your choices tomorrow, and your goals for tomorrow should influence your choices today. Thus many important decisions are linked over time. A highway commissioner may decide to buy land now to create options for accommodating possible increases in traffic in the future. He thus circumvents potential jumps in land values or increases in community resistance which could foreclose future options. The key to dealing effectively with linked decisions is to isolate and resolve near-term issues while gathering the information needed to resolve those that will arise later. By sequencing your actions to fully exploit what you learn along the way, you will be doing your best, despite an uncertain world, to make smarter choices.

The eight ProACT elements provide a framework that can profoundly redirect your decision making, enriching your possibilities and increasing your chances of finding a satisfying solution. Before discussing each element in the coming chapters, we'll begin here with a brief and somewhat simplified case study that shows the ProACT process at work.

APPLICATION

To Sell a Business or Not?

Many years ago, an acquaintance of ours who we'll call Bill established a soundproofing business in Brooklyn, New York, with his friend Stan. It had the usual rocky start faced by most new businesses—getting it established required a lot of hard work—but after 20 tough years Bill and his partner were at last happy with where their company stood. It had grown; it was successful; and their key employees were skilled, loyal, and reliable. The unrelenting stresses and strains of owning a small business had eased.

Bill, an active and restless man who liked challenge and change, now worried about becoming complacent and losing his edge. Taking a proactive look at his situation, he began to evaluate his needs and concluded that he wanted to sell his half of the company. He thought he might go on to launch a new business of some kind. He shared his thoughts with Stan, and Stan indicated a willingness to buy Bill out.

Then Bill started thinking about how to price his share of the business. He knew that the company was worth \$1,300,000, giving his half a value of \$650,000. But he felt that was much more than Stan could afford. He decided, tentatively, to set the price at \$400,000. When he talked over his intentions with his wife, Marie, and their three grown children, however, they expressed considerable discomfort with the course he was considering. They remembered vividly, even if Bill himself didn't, the grueling toll taken by the long hours and high stress of the early years spent establishing and building the company. Was he really ready to go through that again at age 57? And if he did sell, shouldn't he get the full rewards of his labor—shouldn't Stan have to pay the real price? As Bill listened to their arguments, he realized that he, too, was

uncomfortable with the decision he was about to make. He sought our advice.

Our first priority was to help Bill formulate his decision *problem* clearly. Why sell? He was bored; he wanted a change. He planned, somewhat vaguely, to develop another business, location and type undecided. He also planned, again vaguely, to look into moving to the West Coast—the climate appealed to him, and he and Marie would have more opportunities to golf, sail, fish, ski, and pursue the other outdoor activities they loved.

Bill needed to give direction to his decision problem by assessing his *objectives* explicitly. How much did he really want the invigoration of a new physical environment and way of life? the intellectual challenge of gaining expertise in a new area? the mental and emotional effort of building a business from the ground up? With more focus and thought, Bill defined his primary objectives: participating in outdoor recreational activities, being challenged intellectually, and minimizing stress. He clearly valued loyalty to his partner as well, because he was willing to sacrifice to him a significant portion of his business equity.

We began next to look at *alternatives*. Bill had ruled out the status quo, but he had considered only one other option: selling out to his partner for \$400,000. But even given his determination to sell, a higher price would better enable him to fulfill his objectives—he shouldn't overlook that alternative. In addition, we helped Bill develop some other, more creative choices. He could get \$650,000 by finding a buyer other than his partner. Or his partner could pay \$400,000 immediately and \$250,000 in installments over time. Or Bill and Stan could both sell, with Stan, if he wished, remaining to manage the business under the new ownership.

Bill's new insight into his objectives led him to reflect more deeply on the *consequences* of this expanded, but still-limited range of alternatives. Had he considered the bite that capital gains taxes would take out

of his investment capital? Would the remaining sum give him the flexibility to start over while maintaining the degree of leisure and comfort that he and Marie had come to enjoy? The financial picture for a sellout, given the tax situation, didn't look as attractive as it once had.

We pressed Bill to consider the *tradeoffs* between his own financial well-being and his loyalty to his partner. We asked if, magically, his partner were somehow to come up with \$650,000 to buy the business, would Bill turn around and write his partner a check for \$250,000? He responded, naturally, with a resounding "No!"

We also helped Bill think through the other tradeoffs inherent in his objectives. He wanted to enjoy outdoor life in a milder climate, but he wasn't ready to retire. On the other hand, he didn't want to go back to spending all his time working or worrying about work, either. He already had one grandchild, with another on the way, and he wanted to spend more time with them than he had been able to spend with their parents. Clearly, starting over with a new business would require significant personal sacrifices, not to mention the considerable *risks* and *uncertainties* of launching a new venture in a new market in a new place. Bill wasn't afraid of uncertainty and risk—he was a businessman, after all—but this time around he wouldn't be able to rely on Stan's expertise and support. After an association of more than 20 years, he had come to value Stan's perspective highly.

Armed with a full and fresh view of his decision problem, Bill thought further about the issues we had explored. He discussed his objectives and alternatives with his family and his partner. Bill's ultimate *smart choice*, a complete reversal of his original plan, was not to sell out. Instead, he and his wife moved to southern California, where he established a West Coast branch of the soundproofing business. They enjoyed their new lifestyle, and Bill found it invigorating to build a new business almost—but not quite—from scratch. He did so well with the business, in fact, that when, eight years later, he was really ready to retire, his partner bought him out for \$1.7 million.

Start Making Your Own Smart Choices Now

Bill's experience illustrates the benefits of learning *how* to make good decisions. Of course, a good decision doesn't necessarily guarantee a good result, just as a bad decision doesn't necessarily guarantee a bad result. The careless can hit it lucky; the careful can be shot down. But a good decision does increase the odds of success and at the same time satisfies our very human desire to control the forces that affect our lives. In the chapters that follow, we will lay out, step by step, the ProACT approach for decision making—the method that proved so valuable to Bill. Reading these chapters will enable you to improve the way you make the decisions that determine the course of your own life.

Before we plunge in, though, we want to review a couple of important tips that will help ensure that you get the full benefits of our approach.

First and foremost, always focus your thinking where it matters most. Cycle quickly through the eight elements to gain a broad perspective on your decision problem. Typically, for all but the most complex decisions, you will not need to consider all the elements in depth. Usually, only one or two elements will emerge as the most critical for the decision at hand.

Sometimes, the simple act of setting out your problem, objectives, alternatives, consequences, and tradeoffs, as well as any uncertainties, risks, or linked decision factors, will fully clarify the decision, pointing the way to the smart choice. If not, you should try reconfiguring your problem in various ways. Display it graphically, as a table, diagram, or chart, for example. Restate it in several forms, using different words, phrasings, and emphasis. Describe your problem to others, asking for their opinions and

advice. For Bill, imagining himself giving his partner \$250,000 in cash was an eye-opener, as were his family's recollections about the struggles and stresses of the past.

Although the systematic approach we prescribe will greatly increase the chances of reaching a smart choice—as it did with Bill—it doesn't assure it. You must also avoid certain psychological traps that can derail your thinking. Psychologists have shown, for example, that the first ideas that come into our head when we start out to make a decision can have an undue impact on the ultimate choice we make. This can, without our even knowing it, distort our decision-making process and lead us to the wrong decision. In Chapter 10, we will show you how to identify and temper the impact of the most common psychological traps.

Bill's story underscores one more important lesson about making smart choices: *take control*. Create your own decision opportunities. Be proactive in your decision making. Look for new ways to formulate your decision problem. Search actively for hidden objectives, new alternatives, unacknowledged consequences, and appropriate tradeoffs. Most importantly, be proactive in seeking decision opportunities that advance your long-range goals; your core values and beliefs; and the needs of your family, community, and employer. Take charge of your life by determining which decisions you'll face and when you'll face them. Don't just sit back and watch what—good or bad—comes your way.